

## **OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

**Date Issued:** January 4, 2007

**IBA Report Number:** 07-2

**City Council Agenda Date:** January 9, 2007

**Item Number:** 332

**Item:** Amending the Permanent Rules of Council to Establish an Audit Committee

### **OVERVIEW**

On December 6, 2006, the City Council unanimously approved the creation of an Audit Committee of Council to be comprised of three City Council members. The City Attorney was directed to draft an Ordinance to amend the permanent rules of the Council to establish this standing committee, and to return to Council with such Ordinance the first meeting in January. Due to the holidays, the IBA received this proposed Ordinance on Tuesday, January 2, and we completed our review late Wednesday, January 3. As a result, due to docket time constraints, we were not able to work with the City Attorney prior to docket distribution to address our concerns. We provided the attached IBA strikeout version to the City Attorney for their review late Wednesday afternoon and discussions are in progress.

### **FISCAL/POLICY DISCUSSION**

The IBA version addresses the following issues that, per best practices, we believe are key to a successful Audit Committee:

Clarifies that the Committee will oversee audit work for the City of San Diego and audit work must be approved and directed by the Audit Committee.

Clarifies that “audit work” includes financial, performance, compliance and internal audits.

Adds the Committee responsibility of overseeing the development of a City Risk Assessment and an Annual Audit Work Plan.

Adds the Committee responsibility of developing a permanent Audit Committee Charter, reviewing it annually and recommending proposed changes to the governing body as warranted.

Clarifies that the Committee will review draft financial statements as well as the independent audit firm's draft management letter and the City's draft response to that letter.

Clarifies that the Committee will be responsible for reviewing and evaluating the work of the independent audit firm and reporting its findings annually to City Council rather than the Mayor and Council.

Clarifies that the Independent Audit firm will be retained by, report to and take direction from the Audit Committee and the City Council rather than from the Mayor and City Council.

Clarifies which City officials may make requests for audits to the Committee and authorizes the Committee to prioritize workload and develop an Annual Audit Work Plan.

Provides Committee and City Council authority to revise the Annual Audit Work Plan throughout the year based on changing needs and priorities and available resources.

Provides that the Committee may hold Closed Sessions when determined necessary (e.g., personnel matters).

Provides for the Committee to appoint ad hoc temporary committees of citizens with professional financial expertise if determined necessary.

### **RECOMMENDATION**

The IBA recommends City Council consideration of the suggested revisions in the attached IBA strikeout version of the Ordinance to establish the Audit Committee.

### **[SIGNED]**

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Independent Budget Analyst

Attachment